

**City of Ann Arbor
Downtown Development Authority
Washtenaw County, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

City of Ann Arbor
Downtown Development Authority
Washtenaw County, Michigan
June 30, 2008

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City of Ann Arbor
Downtown Development Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
City of Ann Arbor Downtown
Development Authority
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor Downtown Development Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 12, 2008

East Lansing ■ Rochester Hills ■ St. Johns

City of Ann Arbor
Downtown Development Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

This section for the Downtown Development Authority's (the Authority) financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2008. This discussion has been prepared by management along with financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

Using this Annual Report

This annual report consists of a series of financial statements that focus on the financial condition of the unit of government and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets and Statement of Activities that present financial information in a form similar to the private sector.

The Statement of Net Assets includes the Authority's assets, liabilities and net assets. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when levied or the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net assets are one indicator of the Authority's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Authority's financial health.

Condensed Statement of Net Assets
June 30, 2008 and 2007

	Fiscal Year <u>2008</u>	Fiscal Year <u>2007</u>	% <u>Change</u>
Current Assets	\$ 15,697,386	\$ 18,046,115	(13.02%)
Current Liabilities	2,705,846	2,070,586	30.68%
Long-term Liabilities	<u>1,835,000</u>	<u>3,034,944</u>	(39.54%)
Total Liabilities	<u>4,540,846</u>	<u>5,105,530</u>	(11.06%)
Net Assets:			
Unrestricted	<u>\$ 11,156,540</u>	<u>\$ 12,940,585</u>	(13.79%)

Current Assets

The decrease in current assets is due to the decrease in cash and investments being held at June 30, 2008. The components of this category are:

Cash

The Authority maintains a checking account for DDA payments and two bank accounts for depositing parking revenues until they are swept into investments.

Investments at fair value

The Authority keeps its excess funds in investment accounts managed by a bank trust department that invests according to State of Michigan guidelines.

City of Ann Arbor
Downtown Development Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Accounts Receivable

These are funds due for loan payments and reimbursement for costs on parking structure operating.

Current Liabilities

The increase (30.68%) in current liabilities was due to an increase in the accounts payable of the Authority.

Accounts Payable

This amount is made up of amounts due for goods and services received, but not paid for by the end of the fiscal year.

Due to Other Governmental Units

Represents amounts due to the City of Ann Arbor for various purposes, mostly payroll related.

Accrued Interest Payable

This amount represents the amount of interest owed but not paid at year end on the outstanding bonds taken out for DDA and parking projects.

Long-term liabilities, due within one year

This represents the amount due for the bonds taken out for streetscape and parking projects due in the next year.

Non-Current Liabilities

The decrease in this category is due to the payment of principal for City obligations the DDA is contractually responsible for during the operating year. This category is composed of:

Long-term liabilities, due in more than one year

This represents the amount due for the bonds taken out for streetscape and parking projects due in more than 12 months.

Net Assets

Net assets represent the difference between the Authority's assets and liabilities.

Unrestricted Net Assets

Represents those funds available to the Authority for use in approved expenses.

City of Ann Arbor
Downtown Development Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Condensed Statement of Activities
Year Ended June 30, 2008 and 2007

	Fiscal Year <u>2008</u>	Fiscal Year <u>2007</u>
Revenues		
Property taxes	\$ 3,680,612	\$ 3,405,586
Charges for service	14,041,743	12,180,936
Investment income	919,712	989,716
Miscellaneous revenue	<u>16,733</u>	<u>7,763</u>
Total Revenues	18,658,800	16,584,001
Expenses		
Downtown development	5,962,944	2,181,741
Parking	14,088,812	13,457,783
Housing	251,240	124,213
Interest on long-term debt	<u>139,849</u>	<u>185,382</u>
Total Expenses	<u>20,442,845</u>	<u>15,949,119</u>
Change in net assets	(1,784,045)	634,882
Net assets, beginning of year	<u>12,940,585</u>	<u>12,305,703</u>
Net assets, end of year	<u>\$ 11,156,540</u>	<u>\$ 12,940,585</u>

Revenues

Property Taxes

The Authority's property tax revenues are generated through the use of tax increment financing in which the Authority captures ad valorem property taxes. Property tax increment revenues related to the State Education Tax, the Washtenaw Intermediate School District, and the Ann Arbor Public Schools levies are captured in an amount sufficient to support only the annual debt service for Authority obligation outstanding when Proposal A took effect on January 1, 1995. Property tax increment revenues generated by new construction in the Authority's district related to the City of Ann Arbor, Washtenaw County, Washtenaw Community College, and the Ann Arbor District Library are used to support the Authority's capital projects and debt service related to certain of those projects. Property tax revenues for the year ended June 30, 2008 included property taxes levied July 1, 2007 and December 1, 2007.

Charges for Services

This is the revenue generated by the 4,500 space off-street parking system and the 1,900 parking meters managed by the Authority.

Investment earnings

This is interest revenue earned when Authority funds are invested in State approved investments through the Bank of Ann Arbor.

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Expenses

Downtown Development

This is the cost of general administration of the Authority as well as grants to other organizations for the betterment of the downtown area. An example would be the funding of downtown worker bus passes.

Parking

This is the cost of operating the City's parking system.

Housing

This is the cost of one of the Authority's main functions, which is to assist various agencies in providing fair and equitable housing within the downtown area.

Budgetary Highlights

The Authority adopts budgets for all of its funds with budgetary comparisons being presented in this annual report for the General Fund and major special revenue funds.

The General Fund had final budgeted revenues of \$3,992,607 and total expenditures and other financing uses of \$5,422,043. While the Authority's final budget for the General Fund projected that expenditures would exceed revenues by \$1,429,436, the actual results for the year was \$1,136,611 higher than what the Authority anticipated. Results for the year were a decrease of \$2,566,047 in fund balance. Overall the change from the original Board adopted 2007-08 budget to the final budgeted to revenues that were \$282,607 (7.6%) and expenditures that were \$156,163 (2.9%) greater than the original budget.

The Parking Fund final budgeted revenues were \$14,069,626 and expenditures and other financing uses of \$14,550,474. While the Authority's final budget for the Parking Fund projected that expenditures would exceed revenues by \$480,848, the actual results for the year was \$368,052 better. Results for the year were a usage of \$112,796 in fund balance. Overall the change from the original Board adopted 2007-08 budget to the final budgeted to revenues that were \$841,549 (6.4%) and expenditures that were \$138,012 (1.0%) greater than the original budget.

Financial analysis of the Authority's Major and Nonmajor Funds

As the Authority completed 2007/08 its governmental funds reported combined fund balances of \$14,000,776. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Deck Improvements Fund	Nonmajor Governmental Funds
Fund Balance 06/30/07	\$ 6,978,579	\$ 5,607,640	\$ 2,349,723	\$ 2,020,608
Fund Balance 06/30/08	\$ 4,412,532	\$ 5,494,844	\$ 1,609,821	\$ 2,483,579
Net Change	\$(2,566,047)	\$ (112,796)	\$ (739,902)	\$ 426,971

Capital Assets and Debt Administration

The Authority holds no capital assets as any capital items that are purchased or constructed become property of the City of Ann Arbor. The Authority issued no new debt during the year. Long-term obligations totaled \$3,034,944 at year end. More detailed information may be found in Note E to the financial statements.

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Economic Factors and Next Year's Budget

The fiscal year 2009 budget anticipates the property tax and parking income to be approximately what they were last year. The budget anticipates increases in expenditures at an inflationary rate. The Authority's reserves are more than adequate to sustain operational losses.

Contacting the DDA's Management

This financial report is designed to provide the DDA's citizens, taxpayers, customers, and creditors with a general overview of the DDA's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Ann Arbor DDA office at 150 S. Fifth Avenue, Suite 301, Ann Arbor, Michigan 48104.

BASIC FINANCIAL STATEMENTS

City of Ann Arbor
Downtown Development Authority
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,477,588
Investments	12,476,928
Accounts receivable	735,373
Taxes receivable	5,947
Due from other governmental units	<u>1,550</u>
TOTAL ASSETS	15,697,386
LIABILITIES	
Current liabilities	
Accounts payable	1,432,348
Accrued interest payable	40,780
Due to other governmental units	32,774
Current portion of long-term debt	<u>1,199,944</u>
Total current liabilities	2,705,846
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>1,835,000</u>
TOTAL LIABILITIES	<u>4,540,846</u>
NET ASSETS	
Unrestricted	<u><u>\$ 11,156,540</u></u>

See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Governmental Activities			
Downtown development	\$ 5,962,944	\$ -	\$ (5,962,944)
Parking	14,088,812	14,041,743	(47,069)
Housing	251,240	-	(251,240)
Interest on long-term debt	139,849	-	(139,849)
Total	\$ 20,442,845	\$ 14,041,743	(6,401,102)
General revenues			
Property taxes			3,680,612
Investment earnings			919,712
Miscellaneous			16,733
Total general revenues			4,617,057
Change in net assets			(1,784,045)
Net assets, beginning of year			12,940,585
Net assets, end of year			\$ 11,156,540

See accompanying notes to financial statements.

City of Ann Arbor
Downtown Development Authority
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Parking	Deck Improvements
ASSETS			
Cash and cash equivalents	\$ 91,799	\$ 1,624,326	\$ 88,875
Investments	3,175,910	6,038,254	1,403,790
Accounts receivable	231,488	503,885	-
Taxes receivable	5,947	-	-
Due from other governmental units	-	1,550	-
Due from other funds	2,527,670	-	117,156
TOTAL ASSETS	\$ 6,032,814	\$ 8,168,015	\$ 1,609,821
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,373,880	\$ 58,468	\$ -
Due to other governmental units	14,914	17,860	-
Due to other funds	-	2,596,843	-
Deferred revenue	231,488	-	-
TOTAL LIABILITIES	1,620,282	2,673,171	-0-
FUND BALANCES			
Reserved for			
Capital improvements	-	5,494,844	1,609,821
Housing	-	-	-
Unreserved			
Undesignated, reported in			
General fund	4,412,532	-	-
Capital projects fund	-	-	-
TOTAL FUND BALANCES	4,412,532	5,494,844	1,609,821
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,032,814	\$ 8,168,015	\$ 1,609,821

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 672,588	\$ 2,477,588
1,858,974	12,476,928
-	735,373
-	5,947
-	1,550
-	2,644,826
<u>\$ 2,531,562</u>	<u>\$ 18,342,212</u>
\$ -	\$ 1,432,348
-	32,774
47,983	2,644,826
-	231,488
<u>47,983</u>	<u>4,341,436</u>
948,348	8,053,013
1,427,162	1,427,162
-	4,412,532
<u>108,069</u>	<u>108,069</u>
<u>2,483,579</u>	<u>14,000,776</u>
<u>\$ 2,531,562</u>	<u>\$ 18,342,212</u>

City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds **\$ 14,000,776**

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	231,488
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Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as liabilities in
the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 3,034,944	
Accrued interest payable	40,780	
	<hr/>	<hr/>
		(3,075,724)

Net assets of governmental activities **\$ 11,156,540**

See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Parking	Deck Improvements
REVENUES			
Taxes	\$ 3,680,612	\$ -	\$ -
Charges for services	-	14,043,683	-
Investment income	343,600	380,696	86,028
Other	14,350	2,383	-
	<u>4,038,562</u>	<u>14,426,762</u>	<u>86,028</u>
TOTAL REVENUES	4,038,562	14,426,762	86,028
EXPENDITURES			
Current			
General administrative	983,576	448,040	-
Operating	-	8,469,816	1,276,676
Grants to other organizations	908,285	3,509,532	-
Debt service	1,313,518	-	-
Capital outlay	2,547,524	18,565	1,642,859
	<u>5,752,903</u>	<u>12,445,953</u>	<u>2,919,535</u>
TOTAL EXPENDITURES	5,752,903	12,445,953	2,919,535
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,714,341)	1,980,809	(2,833,507)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	2,093,605
Transfers out	(851,706)	(2,093,605)	-
	<u>(851,706)</u>	<u>(2,093,605)</u>	<u>2,093,605</u>
TOTAL OTHER FINANCING SOURCES (USES)	(851,706)	(2,093,605)	2,093,605
NET CHANGE IN FUND BALANCES	(2,566,047)	(112,796)	(739,902)
Fund balances, beginning of year	<u>6,978,579</u>	<u>5,607,640</u>	<u>2,349,723</u>
Fund balances, end of year	<u>\$ 4,412,532</u>	<u>\$ 5,494,844</u>	<u>\$ 1,609,821</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 3,680,612
-	14,043,683
109,388	919,712
-	16,733
109,388	18,660,740
-	1,431,616
77,997	9,824,489
249,213	4,667,030
-	1,313,518
170,913	4,379,861
498,123	21,616,514
(388,735)	(2,955,774)
851,706	2,945,311
-	(2,945,311)
851,706	-0-
462,971	(2,955,774)
2,020,608	16,956,550
<u>\$ 2,483,579</u>	<u>\$ 14,000,776</u>

City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (2,955,774)
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Amounts reported for governmental activities in the statement of activities are different because:

Revenues earned but not available for current expenditures are not reported as revenues in the funds. In the current period these amounts are:	(1,940)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	1,157,946
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>15,723</u>
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Change in net assets of governmental activities	<u><u>\$ (1,784,045)</u></u>
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See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ann Arbor Downtown Development Authority was created on May 10, 1982, pursuant to Act 197 of the Public Acts of Michigan, 1975 as amended. The Authority has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the City of Ann Arbor ordinance establishing the Authority.

The primary revenue sources of the City of Ann Arbor Downtown Development Authority are "tax increment revenue" and "parking structure revenue". The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured assessed value of all real and personal property located in the development area. The "captured assessed value" is basically defined as the amount in any one year by which the current assessed value of the project area exceeds the initial assessed value.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the City of Ann Arbor Downtown Development Authority. The Authority is considered a component unit of the City of Ann Arbor, Michigan and is discretely presented in the City of Ann Arbor's (the Primary Government) financial statements. A copy of the City's audited financial statements may be obtained at the Ann Arbor City Hall.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes investment earnings and property taxes and shows how governmental functions are either self-financing or supported by the general revenues of the Authority.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Authority's individual major funds and aggregated nonmajor funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental funds financial statements present the Authority's major funds.

The major funds of the Authority are:

- a. General Fund - The general operating fund is used to account for all financial resources of the Authority which are restricted to expenditures for downtown development purposes.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- b. Parking Fund - The Parking fund is used to account for all financial resources of the Authority relating to the parking structures.
- c. Deck Improvements Fund - The Deck Improvements fund is used to account for all financial resources relating to improvements to the parking decks.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The annual budget of the Authority is prepared by Authority management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Authority's checking and savings accounts and equity in the pooled accounts of the City of Ann Arbor.

Investments consist of U.S. Government Securities with original maturities of greater than 90 days and pooled investments held by the same agent in the Authority's name. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Receivables

Receivables consist of amounts related to charges for services and property taxes.

8. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

9. Deferred Revenue

Deferred revenue consists of amounts related to long-term receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred.

10. Interfund Transactions

During the course of normal operations, the Authority has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

11. Reserved/Designated Fund Balance

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance which the Authority has set aside for specific purposes.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008, the carrying amounts of the Authority's deposits were \$176,310 and the bank balance was \$592,427, of which \$100,000 was covered by federal depository insurance. The balance of \$492,427 was uninsured and uncollateralized. The Authority had \$200 of imprest cash on hand.

Credit risk

State law limits investments to specific government securities, certificates of deposit, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified below for investments held at year-end.

Interest rate risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy does not limit concentration of credit risk. All investments held at year-end are reported below.

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. On the investments listed below, the custodial credit risk is indicated for those investments which are rated. \$3,777,714 of the investments listed below are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$11,000,292 of the investments below are uninsured and unregistered, with securities held by the agent in the Authority's name.

Investments

As of June 30, 2008, the Authority had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
Federal Home Loan Bank	\$ 7,421,748	\$ 7,421,748	Aaa	2.75 years
Federal Home Loan Mtg Corp	2,365,013	2,365,013	Aaa	6.75 years
Federal National Mtg Association	806,874	806,874	Aaa	2.48 years
Federal Farm Credit Bank	406,657	406,657	Aaa	1.28 years
Uncategorized pooled investments	<u>3,777,714</u>	<u>3,777,714</u>	Not rated	N/A
	<u>\$14,778,006</u>	<u>\$14,778,006</u>		

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the balance sheet and statement of net assets based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 2,477,588
Investments	<u>12,476,928</u>
	<u>\$ 14,954,516</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2008:

Due to General Fund from:	
Parking Fund	<u>\$ 2,527,670</u>

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to Deck Improvements Fund from:	
Parking Fund	\$ 69,173
Nonmajor governmental funds	<u>47,983</u>
	<u>\$ 117,156</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to Deck Improvement Fund from:	
Parking Fund	<u>\$ 2,093,605</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 851,706</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
Governmental activities					
1992 Limited Tax Bonds	\$ 700,000	\$ -	\$ 350,000	\$ 350,000	\$ 350,000
1998 Refunding Bonds	622,890	-	307,946	314,944	314,944
2002 Limited Tax Bonds	<u>2,870,000</u>	-	<u>500,000</u>	<u>2,370,000</u>	<u>535,000</u>
	<u>\$ 4,192,890</u>	<u>\$ -0-</u>	<u>\$ 1,157,946</u>	<u>\$ 3,034,944</u>	<u>\$ 1,199,944</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$3,750,000 1992 General Obligation Limited Tax Development Bonds dated July 1, 1992, the last installment of \$350,000 on September 1, 2008, with interest of 5.00 percent, payable semi-annually. \$ 350,000

\$1,885,000 1998 Refunding Bonds, dated December 1, 1998, the last installment of \$314,944 due March 1, 2009, with an interest rate of 4.05 percent. 314,944

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: LONG-TERM DEBT - CONTINUED

General Obligation Bonds - continued

\$4,925,000 2002 General Obligation Limited Tax Development Bonds dated May 1, 2002, due in annual installments ranging from \$535,000 to \$650,000 through March 1, 2012 with interest ranging from 3.60 to 4.00 percent, payable semi-annually. \$ 2,370,000

\$ 3,034,944

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,199,944	\$ 107,213
2010	575,000	72,825
2011	610,000	50,400
2012	<u>650,000</u>	<u>26,000</u>
	<u>\$ 3,034,944</u>	<u>\$ 256,438</u>

NOTE F: RISK MANGEMENT

The Authority participates in a State pool through the Michigan Municipal Risk Management Authority, with other municipalities for liability, property, and crime losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Authority has not been informed of any special assessments being required

The Authority, as a component unit of the City of Ann Arbor, is protected from other losses as described in the note captioned "Risk Management" within the City's Comprehensive Annual Financial Report.

NOTE G: DEVELOPMENT AGREEMENTS PAYABLE

The Authority has entered into three (3) agreements with developers that call for sharing of incremental tax revenues generated from the development of certain properties within the Downtown area. Two (2) of the agreements were entered into during the 2005/06 fiscal year and the third during the 2006/07 fiscal year. No payments have been made to date, nor have definite payment schedules been established.

One of the agreements calls for the Authority to pay all incremental tax revenue received to the developer in one payment each year until a total of \$600,000 has been paid. The second agreement calls for the Authority to pay 20% of the incremental tax revenue received to the developer in one payment each year until a total has been paid equal to the amount of incremental tax revenue expected to be received over the first ten (10) years which the completed project will reasonably produce, determined by the City Assessor. The third agreement calls for the Authority to pay 25% of the incremental tax revenue received from the project over ten years, as determined by the City Assessor, but may be reduced if the project does not achieve specific set objectives.

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS

The Authority has entered into two (2) non-cancelable long-term operating leases.

The first is for rental of office space that requires monthly payments ranging from \$5,310 to \$5,894 through June 30, 2011. The following is a schedule of future minimum lease payments required under this operating lease as of June 30, 2008.

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 63,721
2010	66,994
2011	<u>70,722</u>
TOTAL PAYMENTS	<u>\$ 201,437</u>

The second is for property used for parking that requires quarterly payments of \$76,451 for calendar year 2008. The quarterly payments for each year are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each October in relation to the previous October. The current agreement is set to expire December 31, 2011, but has been extended in five-year increments since 1982 and is expected to continue beyond that date. Annual payment information is not presented on this obligation because they are not determinable at this time.

NOTE I: PARKING MANAGEMENT AGREEMENT

The Authority has entered into an agreement with Republic Parking, Inc., under which Republic operates various parking facilities in the City. Parking revenues collected are deposited directly in the Authority's bank account and the Authority is billed monthly for operating expenses incurred by Republic. Additionally, Republic is paid a management fee of \$12,500 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. This agreement commenced on February 1, 2007, and is automatically renewed for up to seven (7) additional one (1) year terms unless either party gives written notice.

NOTE J: MASTER PARKING AGREEMENT WITH THE CITY OF ANN ARBOR

The Downtown Development Authority, pursuant to various lease agreements, is responsible for management of the entire public parking system for the City of Ann Arbor, with the exception of parking enforcement and the residential permit program. The current agreement is for the period of July 1, 2005 through June 30, 2015, and provides for the Authority to pay the following amounts to the City of Ann Arbor:

- Payment of annual debt service requirements on the outstanding parking structure bonds and payment of all facility maintenance and utility costs. The maturity schedule for those bonds is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	<u>\$ 360,056</u>	<u>\$ 4,556</u>

- Payment of an annual fund transfer of \$730,000 to the City's Major and Local Street Funds
- Payment of annual rent of \$1,000,000

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J: MASTER PARKING AGREEMENT WITH THE CITY OF ANN ARBOR - CONTINUED

All of these amounts are paid from the Authority's Parking Fund with revenues derived from charges for services at the various City parking facilities.

NOTE K: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the Downtown Development Authority's budgeted expenditures in the General and major Special Revenue Fund has been shown at the functional classification level. The approved budgets of the Downtown Development Authority have been adopted at the total expenditure level for all funds.

During the year ended June 30, 2008, the Downtown Development Authority incurred expenditures in the General Fund in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund	\$ 5,422,043	\$ 6,604,609	\$ 1,182,566

NOTE L: PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Ann Arbor bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Washtenaw. Property tax revenue is recognized in the year it is levied in both the government-wide financial statements and in the fund financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ann Arbor
Downtown Development Authority
General Fund
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 3,475,000	\$ 3,667,607	\$ 3,680,612	\$ 13,005
Investment income	210,000	300,000	343,600	43,600
Other	25,000	25,000	14,350	(10,650)
 TOTAL REVENUES	 3,710,000	 3,992,607	 4,038,562	 45,955
EXPENDITURES				
Current				
General administrative	682,361	940,337	983,576	(43,239)
Grants to other organizations	550,000	900,000	908,285	(8,285)
Debt service	1,313,519	1,315,000	1,313,518	1,482
Capital outlay	2,100,000	1,415,000	2,547,524	(1,132,524)
 TOTAL EXPENDITURES	 4,645,880	 4,570,337	 5,752,903	 (1,182,566)
 EXCESS OF REVENUES (UNDER) EXPENDITURES	 (935,880)	 (577,730)	 (1,714,341)	 (1,136,611)
OTHER FINANCING USES				
Transfers out	(620,000)	(851,706)	(851,706)	-0-
 NET CHANGE IN FUND BALANCE	 (1,555,880)	 (1,429,436)	 (2,566,047)	 (1,136,611)
 Fund balance, beginning of year	 6,978,579	 6,978,579	 6,978,579	 -0-
 Fund balance, end of year	 <u>\$ 5,422,699</u>	 <u>\$ 5,549,143</u>	 <u>\$ 4,412,532</u>	 <u>\$ (1,136,611)</u>

City of Ann Arbor
Downtown Development Authority
Parking Fund
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 13,017,077	\$ 13,717,126	\$ 14,043,683	\$ 326,557
Investment income	210,000	350,000	380,696	30,696
Other	1,000	2,500	2,383	(117)
TOTAL REVENUES	13,228,077	14,069,626	14,426,762	357,136
EXPENDITURES				
Current				
General administrative	792,716	673,837	448,040	225,797
Operating	7,845,663	8,308,934	8,469,816	(160,882)
Grants to other organizations	3,680,478	3,474,098	3,509,532	(35,434)
Capital outlay	-	-	18,565	(18,565)
TOTAL EXPENDITURES	12,318,857	12,456,869	12,445,953	10,916
EXCESS OF REVENUES OVER EXPENDITURES	909,220	1,612,757	1,980,809	368,052
OTHER FINANCING USES				
Transfers out	(2,093,605)	(2,093,605)	(2,093,605)	-0-
NET CHANGE IN FUND BALANCE	(1,184,385)	(480,848)	(112,796)	368,052
Fund balance, beginning of year	5,607,640	5,607,640	5,607,640	-0-
Fund balance, end of year	\$ 4,423,255	\$ 5,126,792	\$ 5,494,844	\$ 368,052

OTHER SUPPLEMENTARY INFORMATION

City of Ann Arbor
Downtown Development Authority
Nonmajor Governmental Funds
COMBINING BALANCE SHEET

June 30, 2008

	<u>Special Revenue</u>		<u>Capital Projects 2002 Pedestrian Improvements</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Housing</u>	<u>Street Improvements</u>		
ASSETS				
Cash and cash equivalents	\$ 418,393	\$ 249,583	\$ 4,612	\$ 672,588
Investments	<u>1,056,752</u>	<u>698,765</u>	<u>103,457</u>	<u>1,858,974</u>
TOTAL ASSETS	<u>\$ 1,475,145</u>	<u>\$ 948,348</u>	<u>\$ 108,069</u>	<u>\$ 2,531,562</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ 47,983	\$ -	\$ -	\$ 47,983
FUND BALANCES				
Reserved for				
Capital improvements	-	948,348	-	948,348
Housing	1,427,162	-	-	1,427,162
Unreserved				
Undesignated, reported in				
Capital projects fund	<u>-</u>	<u>-</u>	<u>108,069</u>	<u>108,069</u>
TOTAL FUND BALANCES	<u>1,427,162</u>	<u>948,348</u>	<u>108,069</u>	<u>2,483,579</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,475,145</u>	<u>\$ 948,348</u>	<u>\$ 108,069</u>	<u>\$ 2,531,562</u>

City of Ann Arbor

Downtown Development Authority

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		Capital Projects 2002 Pedestrian Improvements	Total Nonmajor Governmental Funds
	Housing	Street Improvements		
REVENUES				
Investment income	\$ 61,911	\$ 43,079	\$ 4,398	\$ 109,388
EXPENDITURES				
Current				
Operating	2,027	75,970	-	77,997
Grants to other organizations	249,213	-	-	249,213
Capital outlay	-	170,913	-	170,913
TOTAL EXPENDITURES	251,240	246,883	-0-	498,123
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(189,329)	(203,804)	4,398	(388,735)
OTHER FINANCING SOURCES				
Transfers in	431,706	420,000	-	851,706
NET CHANGE IN FUND BALANCES	242,377	216,196	4,398	462,971
Fund balances, beginning of year	1,184,785	732,152	103,671	2,020,608
Fund balances, end of year	\$ 1,427,162	\$ 948,348	\$ 108,069	\$ 2,483,579

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of Directors
City of Ann Arbor
Downtown Development Authority

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ann Arbor Downtown Development Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any significant deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

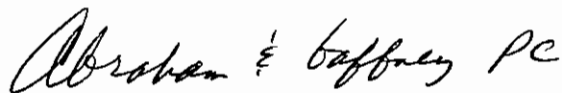
2008-1 EXPENDITURES IN EXCESS OF APPROPRIATIONS

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated. This issue was noted in the General Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Authority shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend that the Board of Directors monitor adopted budgets against actual expenditures and make adjustments as appropriate throughout the year.

This report is intended solely for the use of management and the Board of Directors of the City of Ann Arbor Downtown Development Authority, others within the organization, applicable departments of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

November 12, 2008